

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name JACKSON DISTRICT LIBRARY	County JACKSON
Fiscal Year End 12/31/05	Opinion Date 5/12/06	Date Audit Report Submitted to State 5/22/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

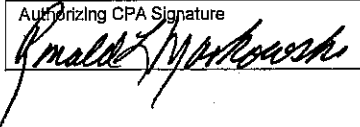
SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MARKOWSKI & COMPANY CPAs		Telephone Number 517-782-9351	
Street Address 2880 SPRING ARBOR RD		City JACKSON	State MI
		Zip 49203	
Authorizing CPA Signature 	Printed Name RONALD MARKOWSKI		License Number 1101006941

**JACKSON DISTRICT LIBRARY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

# JACKSON DISTRICT LIBRARY

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CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTATE PLANNING COUNCIL  
OF SOUTH CENTRAL MICHIGAN

## INDEPENDENT AUDITOR'S REPORT

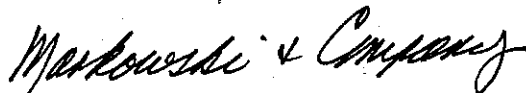
Board of Trustees  
Jackson District Library  
Jackson, Michigan

We have audited the accompanying financial statements of the **JACKSON DISTRICT LIBRARY**, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Jackson District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jackson District Library as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-5, 22-24 and 25-26 respectively are not a required part of the basic financial statements but are supplementary financial information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



MARKOWSKI & COMPANY CPAs

Jackson, Michigan

May 12, 2006

## **Management's Discussion and Analysis**

### **Introduction**

This discussion and analysis of the Jackson District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2005.

### **Financial Highlights**

- The Library assets at the close of December 31, 2005 exceeded its liabilities by \$3,975,446 (net assets). Of this amount, unrestricted net assets of \$2,434,071 may be used to meet the Library's ongoing obligations.
- The total net assets of the Library increased by \$122,922 during the year.
- At the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$2,845,672, a decrease of \$434,593 in comparison with the prior year. Approximately 82% or \$2,341,324 of unreserved fund balance is available for spending at the Library's discretion.
- The Library's tax base increased by 5.21%.

### **Overview of Financial Statements**

This audit report consists of the independent auditor's report, management discussion and analysis, basic financial statements, required supplementary information and additional information.

The basic financial statements comprise government-wide financial statements and fund financial statements focusing on the Library in more detail. The financial statements also contain notes to explain some of the information in the statements and provide more detailed data.

### **Government-Wide Financial Statements**

The government-wide statements provide information to readers with a broad overview of the Library's finances, similar to the private business sector. The statement of net assets includes information on all of the Library's assets and liabilities, with differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as earned but unused vacation leave.

## Management's Discussion and Analysis

	Governmental Activities	
	2005	2004
Assets	\$ 7,916,042	\$ 7,666,772
Liabilities	3,940,596	3,814,248
Net Assets		
Invested in Capital Assets, net	1,396,597	828,066
Restricted	144,778	211,028
Unrestricted	2,434,071	2,813,430
Total Net Assets	\$ 3,975,446	\$ 3,852,524
Revenues		
Property taxes	\$ 3,271,643	\$ 3,132,154
State shared revenues	137,771	204,719
Charges for services	219,164	184,029
Penal fines	532,672	734,126
Investment income	109,659	49,650
Contributions and grants	37,750	141,329
Other revenues	688	59,028
Total revenues	4,309,347	4,505,035
Expenditures		
Culture and recreation	4,186,425	3,936,009
Change in Net Assets	\$ 122,922	\$ 569,026

### **Fund Financial Statements**

The fund financial statements provide more detailed information that is used to help maintain control over the Library's resources. Like other state and local governments, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

### **Financial Analysis**

As noted earlier, net assets may serve as a useful indicator of the Library's financial position. As viewed in the statement of Government Activities, assets exceeded liabilities by \$3,975,446 and total net assets increased by \$122,922 during the year.

## **Management's Discussion and Analysis**

### **Capital Asset and Long-Term Debt Activity**

The Library's investment in capital assets as of December 31, 2005, amounted to \$1,396,597 (net of accumulated depreciation). This investment in capital assets includes property, equipment and books and related materials. The total increase in the Library's investment in capital assets for the current fiscal year was 68.5%.

Major capital asset events during the fiscal year included the following:

- \$239,900 was used to purchase additional property at the Meijer Branch location for expansion purposes.
- \$51,608 was used for building improvements during the fiscal year.
- \$590,432 was invested in books and related Library materials.

### **Funding Issues**

While the Library collected \$3,271,643 in property taxes in 2005, this reflected a modest increase of 4% over 2004, compared to a 7% increase in 2004 collections over 2003. Furthermore the \$532,672 in penal fines received in 2005 showed a marked decrease of 27% in 2005 over the 2004 receipts.

Like most other publicly funded governmental units in Michigan, the Library has also been subject to the results of the instability of state revenues in recent years. Likewise, it is affected by Headley Amendment rollbacks and tax abatements which prevent property tax revenues from growing at the original rate of a voted millage. Although the Library passed a 20-year millage at a rate of 1.00 mill in 1996, the current rate has fallen to .8642 of a mill as of December 2005. What this means is that we have to struggle to operate without drawing on reserve funds.

It is also pertinent to note that several of the Library's other revenue sources such as state shared revenues, penal fines and contributions and grants have shown a marked decline over 2004. A significant drop in revenue occurred when the single business tax was totally eliminated for 2005 by the Michigan state legislature. Despite the fact that the single business tax is under review the future of this revenue source is unknown. With a limited fund balance, the Library must operate conservatively if it is to maintain its current levels of operation for the remainder of the life of its 20-year millage.

The Library's biggest challenge is its aging and poorly equipped physical facilities (4 of which are over 100 years old), all of which have inferior electrical, plumbing and heating systems sorely in need of replacement, and several of which are inaccessible to residents who are physically challenged. Today, 100 years after the Carnegie Library was established in Jackson, the Library's users have greater expectations from the Jackson District Library. It is absolutely critical that the Library significantly upgrade and expand all its facilities to address the challenges posted by our aging and deteriorating facilities and meet the growing demand for Library services countywide.

## **Management's Discussion and Analysis**

### **Funding Issues (Continued)**

It is clear that the need for capital improvements can in no way be financed through either operating or reserve funds. The only answer is a special millage dedicated to new or expanded buildings, as well as any additional operating costs generated by adding staffing, hours, utilities, and services. One of the Board's major tasks in 2006 will be to establish the amount it would require for such a plan, how much millage would be required to pay for and operate the new or expanded and renovated facilities, and how the entire project would be financed through a combination of private fund raising and a public vote. The Board will also need to address the issue of establishing a reserve fund to maintain the current Library buildings and facilities, as well as creating a reserve fund to provide seed money toward the new facilities that are expected to be built beginning early 2008 following the successful passage of a millage in August 2007.

### **Budget Priorities for 2006**

At the same time, it is essential that the Library continue to provide a high level of service in the most cost effective manner. The following new initiatives were considered in preparing the Library's budget for the 2006 fiscal year:

- Increases in the employment budget to reflect the addition of new positions to assist with marketing and technology demands along with increased circulation.
- Increased printing, promotions, and publicity budget for new marketing position to use for increased advertising.
- Increased contracted services budget to provide for professional support and external consultants associated with the Library renovation and expansion projects.
- Increased programming budget for outreach and collaborations and for commemorating the 100<sup>th</sup> anniversary of the Carnegie Library.
- Increased collection budget to reflect increased demand in three areas:
  1. Creation of a Hispanic Materials collection.
  2. Expansion of the African-American collection.
  3. Funding for additional popular materials at all thirteen Library locations.

### **Requests for Information**

This financial report is designed to provide a general overview of the revenues it receives for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report should be addressed to the Director or Assistant Director, at 244 West Michigan Avenue, Jackson, Michigan 49201, phone 517-788-4199.



## **FINANCIAL STATEMENTS**

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2005**

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and cash equivalents	\$ 2,166,032
Investments	861,113
Accounts receivable	33,159
Prepaid expenses	12,502
Property taxes receivable	3,446,639
Capital assets, net	<u>1,396,597</u>
Total assets	<u><u>\$ 7,916,042</u></u>
LIABILITIES:	
Accounts payable	\$ 53,904
Accrued liabilities	18,499
Accrued payroll	40,915
Deferred property taxes	3,446,639
Deferred revenue	113,816
Noncurrent liabilities:	
Compensated absences	<u>266,823</u>
Total liabilities	<u><u>3,940,596</u></u>
NET ASSETS:	
Invested in capital assets, net	1,396,597
Restricted	144,778
Unrestricted	<u>2,434,071</u>
Total net assets	<u><u>\$ 3,975,446</u></u>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>	<u>GOVERNMENTAL ACTIVITIES</u>
		CHARGES FOR SERVICES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<b>FUNCTION/PROGRAMS</b>			
General government	\$ 4,186,425	\$ 219,164	\$ (3,967,261)
<b>GENERAL REVENUES:</b>			
Property taxes			3,271,643
State shared revenues			137,771
Penal fines			532,672
Investment income			109,659
Contributions and grants			37,750
Other revenues			688
Total general revenues			<u>4,090,183</u>
Change in net assets			122,922
Net assets - beginning of year			<u>3,852,524</u>
Net assets - end of year			<u>\$ 3,975,446</u>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**DECEMBER 31, 2005**

	GOVERNMENTAL FUND
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 2,166,032
Investments	861,113
Accounts receivable	33,159
Prepaid expenses	12,502
Property taxes receivable	3,446,639
	<hr/>
Total assets	\$ 6,519,445
	<hr/>
<b>LIABILITIES:</b>	
Accounts payable	\$ 53,904
Accrued liabilities	18,499
Accrued payroll	40,915
Deferred property taxes	3,446,639
Deferred revenue	113,816
	<hr/>
Total liabilities	3,673,773
	<hr/>
<b>FUND BALANCES:</b>	
Reserved	185,720
Designated	318,628
Unreserved/Undesignated	2,341,324
	<hr/>
Total fund balance	2,845,672
	<hr/>
Total liabilities and fund balance	\$ 6,519,445
	<hr/>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2005**

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 2,845,672
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Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet. Net of accumulated depreciation.	1,396,597
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Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	<u>(266,823)</u>
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,975,446</u></u>
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The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-**  
**GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>GOVERNMENTAL FUND</u>
REVENUES	
Property taxes	\$ 3,271,643
State shared revenues	137,771
Coop reimbursement	35,203
Fines and fees	93,843
Video rentals	70,415
Penal fines	532,672
Investment income	109,659
Contributions and grants	37,750
Other revenues	20,391
Total revenues	<u>4,309,347</u>
EXPENDITURES	
Culture and recreation	<u>4,743,940</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(434,593)
FUND BALANCES, BEGINNING OF YEAR	<u>3,280,265</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 2,845,672</u></u>

The accompanying notes are an integral part of these financial statements.

**JACKSON DISTRICT LIBRARY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENT FUND \$ (434,593)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures; in the  
Statement of Activities, these costs are allocated over their  
estimated useful lives as depreciation:

Capital outlays 881,940

Depreciation expense (313,859)

Increase in non-current liability for compensated absences payable  
is an expense in the statement of activities but is not an expenditure  
in the governmental funds.

(10,566)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 122,922

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**



**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Jackson District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Jackson District Library:

**A. REPORTING ENTITY**

The Jackson District Library (the "Library") was formed January 1, 1978, from a consolidation of the City of Jackson and County of Jackson Library systems. The Library is governed by an appointed board of trustees with seven-members.

**B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION.**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

The Library reports the following major governmental fund:

**General Fund**

The General Fund is the general operating fund of the District. It is used to account for all financial resources.

**D: ASSETS, LIABILITIES, AND NET ASSETS**

**Bank Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and payables**

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

A joint venture between the Jackson District Library and the Jackson Community College to operate and maintain an automated library system to be shared between the two parties. Cash received from the Jackson Community College is restricted for the maintenance and operation of the system.

**Capital Assets**

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

**Compensated Absences**

It is the Libraries policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the Statement of Net Assets.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**D: ASSETS, LIABILITIES, AND NET ASSETS** (Continued)

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**E. ESTIMATES**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year ended December 31, 2005, the District incurred expenditures in the General Fund which were in excess of the amounts appropriated. The variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Contracted services:			
Building/grounds	\$ 50,000	\$ 51,287	\$ (1,287)

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash, cash equivalents, and investments of the District can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name. Surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

(3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;

(4) Repurchase agreements consisting of instruments listed in subdivision (1) above;

(5) Bankers' acceptances of United States banks;

(6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;

(7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;

(8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;

(9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 242
Insured (FDIC)	100,000
Uninsured	<u>2,065,790</u>
	<u><u>\$ 2,166,032</u></u>

The District's deposits are in accordance with statutory authority.

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

<u>Investment Type</u>	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Total</u>	<u>Cost</u>
Investment - Cash	\$ 125,749	\$ -	\$ -	\$ 125,749	\$ 125,749
Government bonds	-	727,621	-	727,621	724,200
Corporate equities	-	7,743	-	7,743	5,034
	<u>\$ 125,749</u>	<u>\$ 735,364</u>	<u>\$ -</u>	<u>\$ 861,113</u>	<u>\$ 854,983</u>

The corporate equities represent mutual funds donated directly to the Jackson District Library.

**Investment and deposit risk**

**Interest Rate Risk.** State law limits the allowable investments and the maturities of some of the investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk.** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools.

**Custodial Credit Risk.** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk.

**Concentration of Credit Risk.** State law permits allowable investments but does not limit concentration of credit risk.

**NOTE 4: PROPERTY TAXES**

Property tax revenues shown in the General Fund reflect the 2004 District levy of .8682 mills on the assessed valuation of property located in the County as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the State at an estimated 50% of current market value.

The 2004 levy covers the District's fiscal year of January 1, 2005 to December 31, 2005. The 2004 tax levy became a lien on properties on December 1, 2004, and was substantially collected in early 2005. Taxes became delinquent on March 1, 2005. Taxes receivable - subsequent year, as presented in the Library's financial statements represents the next accounting period's uncollected taxes. Deferred taxes represent the subsequent years taxes both collected and uncollected that are unearned. These amounts are reported as such because the tax bills were issued December 1, 2005 for the 2006 fiscal year revenue.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: CAPITAL ASSETS**

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books	2 to 10 years
Audio Visual	3 years
Circulating Software	3 years
Computer equipment	5 to 7 years
Equipment	5 to 7 years
Building Improvements	15 to 30 years

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Being Depreciated:				
Land	\$ -	\$ 239,900	\$ -	\$ 239,900
Building Improvements	5,000	51,608	-	56,608
Books	719,001	391,134	-	1,110,135
Audio Visual	245,705	139,142	-	384,847
Circulating Software	17,521	9,431	-	26,952
Computer Equipment	75,189	50,725	-	125,914
Equipment	14,942	-	-	14,942
Subtotal	<u>1,077,358</u>	<u>881,940</u>	<u>-</u>	<u>1,959,298</u>
Less Accumulated Depreciation for:				
Land	-	-	-	-
Building Improvements	-	-	-	-
Books	145,917	181,860	-	327,777
Audio Visual	81,341	105,092	-	186,433
Circulating Software	5,364	7,412	-	12,776
Computer Equipment	13,018	17,360	-	30,378
Equipment	3,202	2,135	-	5,337
Subtotal	<u>248,842</u>	<u>313,859</u>	<u>-</u>	<u>562,701</u>
Net Capital Assets Being Depreciated	<u>\$ 828,516</u>	<u>\$ 568,081</u>	<u>\$ -</u>	<u>\$ 1,396,597</u>

Under GASB 34 the Library was not required to retroactively report fixed assets. Accordingly the Library chose not to retroactively report fixed assets prior the year ending December 31, 2003.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6: COMPENSATED ABSENCES**

Full-time District employees earn vacation and sick leave in accordance with the Library's personnel policies. After one year, all employees are entitled to vacation earned based on length of service, and a maximum of one week may be carried over to the following year. All employees earn sick leave at varying rates.

Upon termination, 50% of accumulated sick leave benefits up to a maximum of 90 work days will be paid by the District after 2 years of service.

Unpaid leave at December 31, 2005, which is not liquidated within the current operating cycle, has been reported in the governmental activities.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The District contributes to the Michigan Municipal Employees Retirement System. The "System", an agent of multiple employer public employee retirement systems, acts as a common investment and administrative agent for units of local government in Michigan. The District's payroll, for employees covered by the System for the year ended December 31, 2004 was \$1,194,149. Total gross pay for this period for all employees was \$2,279,332.

All full-time employees become a member of the System on the first day of employment, and are completely vested after 6 years of service. Normal retirement begins at age 50-60, depending on years of service. Service retirement allowances are based upon percentages ranging from one to two percent of 5-year final average compensation depending on the benefit program selected, social security coverage, etc. District employees are required to contribute 4 percent of their annual salary to the System. The District is required to contribute the remaining amounts necessary to fund the System based on an actuarial basis specified by statute.

**Plan Assets**

Information for the amount and types of securities included in plan assets is not available from the System. There are no loans from the System at December 31, 2005. Because these assets are held by the Michigan Municipal Employee's Retirement System, they are not reported as assets of the Jackson District Library in these financial statements.

**Funding Status and Progress**

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, also known as the actuarial present value of credited projected benefits, is intended to (i) help users assess the plan's funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

**Funding Status and Progress** (Continued)

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2004, the date of the most recent actuarial valuation. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually after retirement for persons under Benefit E-2.

At January 1, 2005, the assets in excess of the pension benefit obligation for the Jackson District Library were \$1,212,517 determined as follows:

**Pension Benefit Obligation:**

Retirees and beneficiaries currently receiving benefits	\$ 1,350,799
Terminated employees not yet receiving benefits	672,124
Non-vested terminated employees (pending refunds of accumulated member contributions)	17,711
Current employees:	
Accumulated employee contributions, including allocated investment income	368,301
Employer financed	<u>1,098,370</u>
<b>Total Pension Benefit Obligation</b>	<b>3,507,305</b>
Net Assets Available for Benefits, At Cost (Market value is \$4,607,109)	<u>4,719,822</u>
<b>Assets in Excess of the Pension Benefit Obligation</b>	<b><u>\$ 1,212,517</u></b>

During the year ended December 31, 2004, the plan for the Jackson District Library experienced a net change of \$116,743 in the excess pension benefit obligation. The combined change in the pension benefit obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

**Contribution Requirements and Contributions Made**

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended December 31, 2004, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.



**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATMENTS**

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

**Contribution Requirements and Contributions Made (Continued)**

During the year ended December 31, 2004, no employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the plans as of December 31, 2004. Employee deductions are remitted to the plan monthly.

The effect of changes in actuarial assumptions or methods affecting the December 31, 1993 actuarial valuation and the effect of changes in benefit provisions, if any, on the computed contribution was not computed.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

**Ten -Year Trend Information**

Historical trend information, as contained in the actuarial valuations for the periods indicated, is as follows:

<b>Val. Date Dec. 31</b>	<b>Net Assets Available for Benefits</b>	<b>Pension Benefit Obligation (PBO)</b>	<b>Percent Funded</b>	<b>Assets in Excess of PBO</b>	<b>Annual Covered Payroll</b>	<b>PBO as a Percent of Annual Covered Payroll</b>
1995	2,039,871	1,436,809	142%	603,062	742,610	81%
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149	102%

Ten-year trend information presenting the MERS progress in accumulating sufficient assets to pay benefits when due is presented in the January 1, 2005 MERS Comprehensive Annual Report.

**JACKSON DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8: JOINT VENTURE**

The District entered into a joint venture with Jackson Community College on September 25, 1991 to acquire, install, operate, and maintain an automated library system to be shared between the parties. The initial system cost, future additions, upgrades and maintenance are shared by Jackson District Library and Jackson Community College at a 2/3 - 1/3 ratio, respectively. An Opportunity Fund was established with each member depositing \$5,000 in an escrow account. The total balance in the investment account is \$317,940, which is offset by a liability for Jackson Community College's portion of the \$113,816 at December 31, 2005.

**NOTE 9: RESERVED FUND BALANCE/RESTRICTED NET ASSETS**

The amounts reported in the Statement of Net Assets identified as restricted net assets are comprised of the following:

Restricted for shared computerization agreement	\$ 113,816
Restricted for employee flex plan withholdings	1,168
Restricted for donor imposed restrictions	<u>29,794</u>
Total Reserved Net Assets	<u><u>\$ 144,778</u></u>

The amounts reported in the Governmental Funds Balance Sheet as reserved/designated fund balance are comprised of the following:

Reserved for shared computerization agreement	\$ 113,816
Reserved for employee flex plan withholdings	1,168
Reserved for donor imposed restrictions	29,794
Reserved for encumbrances	<u>40,942</u>
Total Reserved Fund Balance	<u><u>\$ 185,720</u></u>
Designated by board action	<u><u>\$ 318,628</u></u>

**NOTE 10: RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**JACKSON DISTRICT LIBRARY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Beginning of Year Fund Balance	\$ 3,061,104	\$ 3,280,265	\$ 3,280,265	-
Resources (Inflows)				
Property taxes	3,290,000	3,290,000	3,271,643	(18,357)
State shared revenues	213,000	138,000	137,771	(229)
Coop Reimbursement	33,000	35,203	35,203	-
Fines and fees	72,000	85,259	93,843	8,584
Video Rentals	65,000	70,415	70,415	-
Penal fines	600,000	533,000	532,672	(328)
Investment income	18,000	90,570	109,659	19,089
Contributions and grants	9,000	31,557	37,750	6,193
Other revenues	28,000	35,652	20,391	(15,261)
Amounts available for appropriation	<u>7,389,104</u>	<u>7,589,921</u>	<u>7,589,612</u>	<u>(309)</u>
Charges to Appropriations (Outflows)				
Salaries and wages	2,434,000	2,300,000	2,290,879	9,121
Board per diem	10,000	9,000	8,830	170
Social security	187,260	176,000	171,123	4,877
Health insurance	482,000	456,000	455,736	264
Life insurance	6,000	700	653	47
Unemployment	6,000	6,480	6,478	2
Director's conferences	6,000	4,800	4,704	96
Office supplies	37,000	37,000	33,647	3,353
Postage	22,000	18,000	17,686	314
Computer supplies	38,000	46,000	44,929	1,071
Printing/promotions/publicity	22,000	22,000	20,278	1,722
Technical processing supplies	22,000	17,000	16,299	701
Contracted services:				
Professional	25,000	25,000	24,437	563
Office equipment	30,000	30,000	27,470	2,530
Building/grounds	65,000	50,000	51,287	(1,287)
Software/upgrades	23,000	23,000	17,520	5,480
Other	23,000	40,000	37,258	2,742
Online computer library catalog	29,000	25,000	24,367	633
Shared computerization maintenance	80,000	35,265	35,265	-
Building and maintenance supply	30,000	14,000	12,890	1,110
Gifts and memorial materials	-	6,549	5,090	1,459
Professional memberships and dues	8,150	4,100	4,072	28
Subtotal	<u>3,585,410</u>	<u>3,345,894</u>	<u>3,310,898</u>	<u>34,996</u>

**JACKSON DISTRICT LIBRARY**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Charges to Appropriations (Continued)				
Staff development	35,000	29,000	27,861	1,139
Staff recognition	3,000	5,620	5,206	414
Telephone	28,000	28,000	23,077	4,923
Transportation	4,000	6,000	5,718	282
Mileage reimbursement	17,000	11,000	10,330	670
Vehicle repairs and maintenance	3,000	2,500	2,321	179
Insurance and bonds	52,000	61,000	47,613	13,387
Utilities	90,000	90,000	76,612	13,388
Indirect State aid	70,000	70,000	68,885	1,115
Data lines	55,000	68,000	66,126	1,874
Internet lines	18,000	18,000	15,272	2,728
Fax lines	3,090	1,500	1,039	461
Library programs	35,000	41,500	40,470	1,030
Recruitment	7,000	6,500	5,596	904
Interloan	1,000	240	240	-
Miscellaneous	8,000	8,000	5,262	2,738
Word wise	6,000	12,194	7,403	4,791
Books:				
Hardbound/Trade	347,100	370,506	363,433	7,073
Paperback	12,000	12,000	10,607	1,393
Reference	24,500	24,500	17,094	7,406
Periodicals	43,000	43,000	42,207	793
Audio-visual	139,900	139,900	139,142	758
Online databases	50,000	60,000	59,933	67
Electronic software	8,500	10,000	9,431	569
Bindery	1,000	1,000	617	383
Contingency	30,000	14,000	13,401	599
Building & improvements	50,000	3,000	2,209	791
Office equipment	27,000	25,000	23,704	1,296
Capital outlay-Computers	51,000	51,000	50,725	275
Capital outlay-Other	127,500	294,900	291,508	3,392
Total Charges to Appropriations	4,932,000	4,853,754	4,743,940	109,814
Budgetary Fund Balance-December 31	\$ 2,457,104	\$ 2,736,167	\$ 2,845,672	\$ 109,505

**JACKSON DISTRICT LIBRARY**  
**PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS**  
**DECEMBER 31, 2005**

Schedule of Funding Progress:

<b>Val. Date Dec. 31</b>	<b>Net Assets Available for Benefits</b>	<b>Pension Benefit Obligation (PBO)</b>	<b>Percent Funded</b>	<b>Assets in Excess of PBO</b>	<b>Annual Covered Payroll</b>	<b>PBO as a Percent of Annual Covered Payroll</b>
1993	1,719,555	1,164,936	148%	554,619	852,996	65%
1994	1,856,723	1,275,094	146%	581,629	757,400	77%
1995	2,039,871	1,436,809	142%	603,062	742,610	81%
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149	102%

## **ADDITIONAL INFORMATION**

**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES - DETAIL**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**EXPENSES:**

Salaries and wages	\$ 2,290,879
Board per diem	8,830
Sick and vacation wages	10,566
Social security	171,123
Health insurance	455,736
Life insurance	653
Unemployment	6,478
Director's conference	4,704
Office supplies	33,647
Postage	17,686
Computer supplies	44,929
Printing/promotions/publicity	20,278
Technical processing supplies	16,299
Contracted services:	
Professional	24,437
Office equipment	27,470
Building/grounds	51,287
Software/upgrades	17,520
Other	37,258
Online computer library catalog	24,367
Shared computerization agreement	35,265
Building and maintenance supply	12,890
Gifts and memorial materials	5,090
Professional memberships and dues	4,072
Staff development	27,861
Staff recognition	5,206
Telephone	23,077
Transportation	5,718
Mileage reimbursement	10,330
Vehicle repairs and maintenance	2,321
Insurance and bonds	47,613
Utilities	76,612
Indirect State aid	68,885
Data lines	66,126
Internet lines	15,272
Fax lines	1,039
Library programs	40,470
Recruitment	5,596
Interloans	240
Miscellaneous	5,262
Subtotal	<u>3,723,092</u>



**JACKSON DISTRICT LIBRARY**  
**STATEMENT OF ACTIVITIES - DETAIL**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**EXPENSES: (Continued)**

Word wise expenses	7,403
Periodicals	42,207
Online databases	59,933
Bindery	617
Contingency	13,401
Building and improvements	2,209
Office equipment	23,704
Depreciation	313,859
Total expenditures	<u>4,186,425</u>

**REVENUE:**

Property taxes	3,271,643
State shared revenues	137,771
Charges for services	219,164
Penal fines	532,672
Investment income	109,659
Contributions and grants	37,750
Other revenues	688
Total revenues	<u>4,309,347</u>

Excess of Revenues Over (Under) Expenditures	122,922
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Net Assets - Beginning	<u>3,852,524</u>
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Net Assets - Ending	<u><u>\$ 3,975,446</u></u>
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**ACCOUNTING MEMORANDUM  
COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. As detailed in Note 2 of the financial statements the Library incurred expenditures in excess of amounts appropriated in one area. The Library does an excellent job of monitoring and amending the budget and the single expenditure in excess of appropriation was minor compared to the overall budget.

**SEGREGATION OF DUTIES**

Because of the limited size of the Jackson District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. The Library's management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.